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SUBJECT: KOREAN COMPANIES FACE CHALLENGES IN AZERBAIJAN'S
DIFFICULT BUSINESS ENVIRONMENT

Classified By: Pol/Econ Chief Joan Polaschik, Per Reasons 1.4 (B, D).

11. (C) SUMMARY: Although the press has reported that South Korean companies are winning major construction and transportation deals, the Baku-based Director of the Korean Ministry of Construction and Transportation Yong Seog Kim reports that Korean companies are facing problems in concluding the deals. According to Kim, the GOAJ's lack of experience and preference for oral, rather than written agreements, has made it difficult to move beyond MOUs to formal written contracts; the Korean companies also have faced difficulties with their local partners. The recent visit by the South Korean Prime Minister to Baku resulted in only two deals: a contract for 1,000 Daewoo buses and a contract for a new traffic management system. END SUMMARY.

12. (C) In a May 22 meeting, Director of the Ministry of Construction and Transportation of Korea in Azerbaijan Yong Seog Kim discussed the recent visit by the South Korean Prime Minister to Azerbaijan and the multiple press announcements regarding Korean companies winning construction projects. Kim has offices at the Korean Embassy and in the Azerbaijani Ministry of Transportation. He has been here since September 2006, and was assigned to Baku after President Aliyev visited Seoul. His main priority is to identify infrastructure, construction and transportation projects for Korean companies.

13. (C) According to Kim, Korean companies have identified the construction and transport sectors as their key areas of interest after determining that the oil and gas sector was completely in the hands of Western companies. Kim stated that Korean companies are not getting all the construction deals in Azerbaijan, contrary to press reporting. Korean companies, according to Kim, are fighting huge problems with the GOAJ. Overall, Korean companies find doing business in Azerbaijan much more difficult than in Uzbekistan, Kazakhstan and Turkmenistan.

14. (C) Most of the press reporting is focused on MOUs signed with Korean companies. Translating these MOUs into actual contracts, according to Kim, is the biggest problem and Korean companies are not always successful. Kim cited the Alet port project MOU as an example as it has been pending a contract since 2006. According to Kim, there are 15 major Korean companies in Baku with offices and staff here ready to sell projects, make contacts in the GOAJ and sign MOUs/contracts. From discussions with other contacts, having a local office in Baku is an important move if companies want to be in on a deal at the ground floor.

15. (C) Kim said that the South Korean Prime Minister's visit to Baku was "good" but only resulted in two deals: a contract for 1,000 Daewoo buses and a contract for a new traffic management system. Both these deals were hammered out in the days and hours before the PM visited and the Minister of

Transportation was key to finalizing the deals. AzerSun and a Korean company have also signed an MOU (not a contract) to develop a large residential area with a golf course near the airport. Kim, however, was not sure if the Korean company will actually get the contract.

¶6. (C) Kim said that the huge Korean conglomerate GS Construction had a large office here with many Korean expats until it had falling-out with Gilan Construction, its primary partner and reportedly Minister of Emergency Situations Kamalladin Heydarov's company. Now GS Construction has now scaled back its office significantly, including sending Korean expat workers back to Korea. Based on its difficult relationship with Gilan, GS has determined that it cannot do much business here. GS Construction has the MOU for the new port at Alet. Without Gilan's partnership, however, Kim believes that GS will not sign a contract to build it. During a separate meeting, a prominent MP and construction company owner said that the Koreans were not going to build the port and that local construction companies would get the deals.

¶7. (C) Kim said that the GOAJ and local companies do not understand contracts, do not want to do contracts and prefer to do deals with a handshake. During recent contract negotiations, the Ministry of Transportation did not bring any lawyers to the discussions, slowing down the entire process and surprising the Koreans. According to Kim, Korean companies want contracts that detail everything. The GOAJ, in Kim's view, does not appear to understand or care about this issue. A partner in a major Western law firm that represents another Korean firm seeking to conclude major infrastructure deals told us that his client is experiencing similar difficulties.

¶8. (C) COMMENT: Since President Aliyev's September 2006 visit to Seoul, press reporting has indicated that South Korean companies were making big-ticket deals in sectors ranging from transportation to powerplants. The Koreans' success was widely believed to be due to political deals made during Aliyev's visit and the rumored close links between Minister of Emergency Situations Kamalladdin Heydarov and various Korean firms. The difficulties faced by these presumably well-connected Korean companies are indicative of the difficulty of doing business outside the legal protection of the energy sector's Production Sharing Agreements, and are similar to the experiences of American companies. The Korean companies have a slight advantage over other companies by maintaining offices in Baku with employees on the ground looking to land deals, yet they still face a long and difficult struggles to conclude contracts. GOAJ officials, including the Deputy Minister of Economic Development, have told the Embassy that it is important for American companies to have local offices in Azerbaijan, talking with ministries and developing business leads. END COMMENT.
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